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(U) CHINA: DENG XIAOPING'S AGRARIAN REVOLUTION

Summary

(LOU) Since 1979, China has initiated agricultural reforms which have largely undone the collectivized system imposed by Mao Zedong during the 1950s. It first did away with Mao's communes and established a family-based "responsibility system"; more recently, it ended the government monopoly on grain trade. These reforms, coupled with sustained good weather, have proved successful in motivating peasants to produce more. China has enjoyed six years of bumper harvests and rising peasant income.

(C) Inherent in Deng's agricultural reforms, however, are a number of potential problems which will require careful management by Deng's successors. Exacerbation of the economic and social tensions set in motion by Deng's program could lead to pressure for a rollback of some of its more controversial aspects, resulting in reestablishment of greater central control over the life and economic activity of the Chinese peasant.

(LOU) Equally interesting are the implications of success. For US farmers, China has already moved from the position of major agricultural market to that of competitor on the international market in some crops. Some of the business lost by US farmers, however, may be made up by increased opportunities for sales of fertilizer, pesticide, herbicide, poultry and livestock technology, and food processing and storage technology. Internally, agricultural reform so far has pushed the leadership to address such key problems in the urban economy as China's irrational price structure and stifling bureaucracy. Further success could help drive Deng's current highly controversial industrial and commercial reforms to completion.

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(LOU) Deng's Rural Revolution

The Chinese leadership, under Deng's strong guidance, has set in motion a revolution in the countryside, the long-term impact of which--provided it continues--will likely be greater than Mao's collectivization of Chinese agriculture. Deng's initiatives have far-reaching and dramatic implications not only for the 800 million Chinese peasants but also for the international community.

The reforms, which began in 1979 with initial steps toward decollectivization of farming, have four principal long-term goals:

- Change the structure of agriculture. Redress past over-emphasis on grain cultivation; expand cash cropping; develop animal husbandry, fisheries, forestry, and side-line manufacturing; increase trade and services in the countryside; and improve the quantity, quality, and variety of agricultural produce and hence the diet of Chinese citizens.
- Reduce the agricultural work force to an efficient minimum. Shift as much as two-thirds of the rural population into small and medium-sized cities and from agriculture into light manufacturing, commercial, and service trades.
- Shift the burden of economic uncertainty from the state onto the peasants. Improve their efficiency by forcing them to rely much more on market signals for decisions about what to grow and eliminate government food subsidies to both producers and consumers which have been a serious drain on the government budget.
- Raise the living standard in China's countryside and, by spurring agricultural production, stimulate overall growth.

Pressure for Price Reform

(LOU) One of the recent mechanisms for accomplishing greater specialization in the countryside and for shifting the burden of decisionmaking onto the peasants is the end of the government's virtual monopoly on grain marketing. Under the post-1979 system, family (and other) production units paid taxes in the form of grain quotas to the state and then sold above-quota grain to the state at fixed but higher prices. As of January 1, 1985, the state has no longer been obligated to purchase all of the peasant's grain. Rather, state and peasant are to contract for deliveries at negotiable prices, with any surplus to be sold on the private market.

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(C) Peasants have responded predictably to their new flexibility in choosing crops by exploiting the continued irrationality of China's pricing mechanisms. Many have decided to abandon grain cropping for more lucrative cash crops or other endeavors; others simply have refused to sign contracts. Preliminary reports suggest that the fall grain crop, although good, may be lower than 1984's in part because of adverse weather. Until comprehensive price reform is implemented--and only tentative steps have been taken so far--peasants will likely continue to respond in ways not favored by Beijing.

(C) Although price structure now appears to be a manageable problem, the unlikely event of a sustained or precipitous drop in grain production or continued rapid price variations in meat and vegetable prices could fuel urban inflation and discontent--and, in turn, create political fodder for opponents of the reforms. One indicator will be whether the leadership perseveres with price reform in spite of upward pressure on prices after the first summer harvest.

(LOU) Inflationary Pressure

Chinese emphasis on greater specialization in the countryside has also led to a rapid expansion of rural credit and an explosion of small-scale manufacturing enterprises. Undisciplined bank lending to these enterprises has contributed to an expansion of the money supply, fueling inflation. Moreover, the growth of often-inefficient local manufacturing has added strains on raw materials, energy supplies, and transportation. In an effort to apply the brakes to industrial growth, central officials are now trying to reimpose some of the control they earlier relinquished.

(LOU) Demographic Implications

The long-range goal of shifting an additional several hundred million peasants from agriculture to other employment entails staggering problems, chief among which are how to channel migration into small and medium-sized provincial towns and cities in some sort of orderly fashion and how to employ those who leave the land. Rapid improvement of rural living standards and expanding employment opportunities in non-field work have helped keep rural dwellers at home or in local townships. But the gradual elimination of ration coupons and internal passes has made control of the population more difficult; already large numbers of peasants are taking advantage of loopholes and engaging in subterfuge to migrate to big cities. For the most part lacking education and skills, migrants to urban areas threaten to expand the "lumpen proletariat" which plagues cities in other Third World countries.

Paradoxically, the very success of China's agricultural reforms over the past six years has complicated China's birth

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control problems. The shift to family farming and the opportunities for expansion into related retail and service trades create incentives for large families in the countryside, a trend reinforced by ability to support larger households on rising incomes. This dynamic, recognized by the leadership, has led to some modifications in the "one-child-per-couple" policy. Nevertheless, after an increase in population growth in 1981, imposition of fines and harsher measures has restored the downward trend.

(C) Social Tensions

Unlike the old Maoist system, where levels of income varied relatively little in specific villages, the new system benefits groups and individuals differentially in the same area. At the macro-level, the reforms' greatest beneficiaries are coastal areas, suburban localities, areas with rich farming land, and areas favored with good transportation networks--regions that also prospered most under the old system. At the micro-level, current policies appear to favor former commune officials who can use their skills and connections for their own advantage; demobilized soldiers and "sent down" youth whose higher literacy and greater sophistication give them an advantage in dealing with modern technology and commerce; old landlord and rich peasant families who retain scarce farming skills; and families with many work-age members.

Overall rural income is rising impressively, with a few families earning \$5,000 or more a year. But recent Chinese media commentary has warned that wide disparities continue to exist and that stories of increasing wealth in the countryside have exaggerated the extent of overall improvement. The average rural per capita income in 1984 was estimated at about \$125. Some farmers, as well as local entrepreneurs, are hiring laborers. In many ways, village life is returning to the traditional patterns of diverse employment, income, and lifestyle. Meanwhile, "feudal" practices--anathema to the ideologues--are returning in some areas, including traditional religion and superstition, the selling of women, and lavish wedding and funeral feasts. These factors suggest that social tinder exists which could be exploited by opponents of Deng's reforms in the event of a severe economic downturn in the countryside.

(C) Whither the Communist Party?

Under current reforms, the Chinese Communist Party has lost its raison d'être in the countryside. Collective organization of agriculture has all but been abandoned; the party is in search of an ideology to replace Mao's emphasis on social and economic equality. Faced with the alternative of becoming irrelevant, party cadres so far appear for the most part to have used their connections and skills to benefit personally from the reforms and to coopt new rural entrepreneurs into the party.

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There is apparently some concern among Chinese leaders, however, that local officials might use the recent reemergence of credit and processing cooperatives in the countryside as an opening wedge for the recollectivization of agricultural production, much as their predecessors used early cooperatives in the 1950s. Thus, many central leaders have been reluctant to promote even those farming production cooperatives for which sound economic justification exists.

Implications and Outlook

(LOU) If the reformers' goals were met, China in the 21st century would be predominantly urban, with the population concentrated in hundreds of cities of 1-5 million rather than in a few poverty-stricken megalopolises as in most of the Third World. Chinese society would be increasingly diverse; rural life would be richer and more varied, with a growing middle class demanding greater cultural, intellectual, and possibly political freedom commensurate with its economic status.

(C) The continued success of China's rural revolution would likely mean a further decline in purchases of US grain and even some Chinese competition for US farmers on the international market in grain, oilseeds, cotton, and other crops. In four years, China went from being America's fourth largest cotton market to being a competitor in exports. Some of the business lost by US farmers, however, could be made up by expanding opportunities for sales of fertilizer, herbicide, and pesticide; for poultry and livestock technology; and for food processing and storage technology.

(C) The potential political implications are even more important. China experts in the Soviet Union scoff at the "kulakization" of China's countryside and predict that the reforms will be reversed within five years. The Soviets are probably correct in seeing the sudden transformation of China's countryside into a society of "small commodity producers" as undermining the socialist nature of the country. But a drastic reversal now would have tremendous costs, risking a major famine and civil disorders. A gradual trimming back is much more possible. Any major backtracking, assuming continued high agricultural production, will become even more difficult as time goes by. Building on the base of the new Dengist agrarian society, China is likely to continue to develop an eclectic and much more pluralistic and dynamic "socialism with Chinese characteristics."

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